



Bulletin

2017-05B

FY2018 BUDGET ISSUES AND OTHER RELATED MATTERS

TO: City/Town/Regional School District Officials

FROM: Mary Jane Handy, Director of Accounts

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SUBJECT: FY2018 Budget Issues and Other Related Matters

This *Bulletin* addresses several issues that cities, towns, regional school and other districts should consider for FY2018 revenue and expenditure budgeting and other related matters.

New information from last year's Bulletin:

Municipal Modernization

In our publication, City & Town, DLS features frequently asked questions involving the effect of certain changes made by the Municipal Modernization Act (Act), [Chapter 218 of the Acts of 2016](#). We have also compiled the questions answered in [the Municipal Modernization Act series](#) of *Ask DLS* for your convenience. You can also find a summary of the changes made by the Municipal Modernization Act in the [August 18, 2016 issue of City and Town](#).

Parking meter or other parking receipts

As a result of the Act, [MGL c. 40, § 22a](#), and [§ 22b](#), and [§ 22c](#) have been amended. Parking meter receipts are unrestricted and unreserved general fund revenue unless the city or town accepts provisions in those statutes in order to credit them to a “receipts reserved for appropriation” special revenue fund. Any revenue received before November 7, 2016 remains in the receipts reserved special revenue fund to be appropriated accordingly.

If a city or town wants to continue treating parking revenues as “receipts reserved for appropriation,” its legislative body must accept the provisions in the statutes. If the city or town did not use any of the parking revenues it anticipates receiving on or after November 7, 2016 as estimated receipts when setting its fiscal year 2017 tax rate, it may in an acceptance vote taken on or before June 30, 2017 provide that any revenue received on or after November 7, 2016 be credited to the receipts reserved fund. Otherwise, the acceptance will only apply to revenues received on or after the effective date of the vote, or later effective date specified in the vote.

Borrowing Premiums received when issuing debt and surplus of bond proceeds

We will be issuing guidelines explaining amendments made by the Act regarding city, town and district borrowing. The Act makes changes to the purposes for which cities and towns may borrow under [MGL c. 44, § 7 and 8](#) as well as the terms for those loans. [Chapter 218 of the Acts of 2016](#). These amendments also affect the purposes for which districts, as defined in [MGL c. 44, § 1](#), may borrow, as provided in [MGL c. 44, § 9](#). There was no change to [MGL c. 44, § 10](#), which establishes a debt limit for city, town and district borrowings.

For a listing of the changes to the borrowing purposes under [G.L. c. 44, § 7 and 8](#), please refer to the “[Borrowing Purposes Table Before and After the Municipal Modernization Act](#)”. As a result of these changes, the DLS Director of Accounts revised the guidelines ([Director's Guidelines](#)) that establish the maximum term that cities, towns, improvement districts and regional school districts may borrow to finance certain capital projects based on the useful life of the asset. These guidelines include (1) all borrowing purposes authorized by those statutes, (2) their maximum statutory terms, and (3) their maximum terms, if any, established by the Director. The [Director's Guidelines](#) and the “[Borrowing Purposes Table Before and After the Municipal Modernization Act](#)” are published on the DLS website under the [Bureau of Accounts Public Finance section](#) and take effect on the date shown. The term established in the [Director's Guidelines](#) is the maximum borrowing term allowed by law for that purpose and may be used for debt issued on or after its effective date.

Borrowing - premiums, surplus proceeds and debt exclusions

We will be issuing an Informational Guideline Release (IGR) explaining to local officials the procedures and requirements regarding: (1) the application of premiums received in connection with the sale of bonds or notes; and (2) the allowable disposition of surplus loan proceeds remaining after the completion of a project. See [MGL c. 59, § 21C\(k\)](#) and [MGL c. 44, § 20](#) as amended.

Year End Transfers

As a result of the Act, [MGL c. 44, § 33B](#) was amended to eliminate the limits on types and amounts of appropriation transfers that can be made by the selectmen with finance committee approval at end of year. This allows end-of-fiscal-year transfers from health insurance, debt service, or other unclassified/non-departmental line item appropriation and eliminated a cap of 3% on the amount that may be transferred from any department (school and light department line items remain exempt from this procedure).

Departmental Revolving Fund

The revolving funds statute was amended to provide more flexibility by eliminating the departmental per fund and total fund caps, broadening the types of departmental receipts which funds can be established, and allowing revolving funds to be established by bylaw or ordinance. Please see Bulletin [2017-01B](#) for a model bylaw and ordinance and guidance regarding the authorization of departmental revolving funds for use in Fiscal Year 2018 and future years.

Betterment Reserve

[MGL c.44, § 53I](#) was amended to allow a special revenue fund to reserve betterment and special assessment revenue for appropriation for the payment of debt service on any bonds issued to finance the improvements for which betterments were assessed.

Court Judgments

Amends [MGL c.44, §31](#) to allow payments without appropriation for final court judgments and other final adjudicatory claims with municipal counsel certification. These court judgments refer to expenditures in excess of appropriation, however these payments must be provided for prior to the next tax rate certification.

Modified information from last year's Bulletin:

PEG access

Since the passage of [Chapter 352 of the Acts of 2014](#) regarding Cable Television PEG Access funds and the issuance of [IGR 16-102](#) on the matter, the Bureau has received numerous calls and e-mails from communities as to their current accounting treatment of these funds.

In order to facilitate local decisions about the most appropriate accounting treatment for these revenues, the Bureau will extend another year the date announced in IGR 16-102 for completing any transition from a community's current accounting treatment. Communities will now have until the close of fiscal year 2018 or June 30, 2018 to consider the available accounting options and take the necessary actions to implement it. Accounts treated otherwise at the end of fiscal year 2018 will be closed to the General Fund as part of the June 30, 2018 free cash certification. Any inconsistent statements in Section I of IGR 16-101 or other prior written publications or statements are superseded.

911 Reimbursements

The Bureau has been informed by the State 911 Department that reimbursements for all fiscal years prior to FY2014 have been completed. Any community with a deficit in this account for any fiscal year prior to FY2014 must provide for that deficit in the FY2018 tax rate. Once the State 911 Department has completed reimbursements for fiscal years FY2014 and after, any grant deficits reported on the balance will have to be raised if not otherwise provided for.

Please be aware that the contracted amount must be less than the apportioned amount and is the limit of the reimbursement. Also be aware that the contracted amount may not be reimbursed if non-eligible costs are included. If already paid, these non-eligible costs will have to be provided for.

Accountant's Manual

The new Accountant's Manual for the Massachusetts Municipal Auditors' and Accountants' Association is being revised for the changes of the Municipal Modernization Act and will be issued in the near future.

Gateway

Gateway Modernization may be in its final year, but many significant improvements are still in process. Recently Release 4 upgraded and modernized two major modules, Schedule A and Local Officials Directory (LOD). Additional details on Schedule A update may be found in the [February 16, 2017](#) edition City & Town and LOD updates in the [April 20, 2017](#) edition.

Snow and Ice

[Chapter 10, § 58 of the Acts of 2015](#) authorized cities and towns by local decision to amortize their FY2015 snow and ice removal account deficit over three fiscal years. Please remember to include the final amortized amount on the FY2018 Tax Rate Recap either as an appropriation or as an amount to be raised.

Massachusetts Emergency Management Agency (MEMA) has been working closely with the Federal Emergency Management Agency (FEMA) for potential reimbursement for qualifying expenditures incurred during certain January 2015 snowstorms. The Bureau has allowed special accounting treatment for the intended reimbursement.

Community Preservation Fund

During FY2017, 162 cities and towns collected the local Community Preservation Act (CPA) surcharge and are eligible for state matching grants in FY2018. DLS estimates that the balance in the state trust fund will be sufficient to provide a first round match of 15% of the surcharge levied by each city and town.

In FY2017, there will be equity and surplus distributions for those cities and towns that have adopted the maximum 3% surcharge. With these additional distributions, the total state reimbursement for qualifying cities and towns will increase, depending on their decile and total surcharge amount. The above estimates are subject to change depending on Registry of Deeds collections between now and October.

Estimating FY2018 Medicaid Receipts

The Bureau continues to urge caution when estimating these receipts as the amount due the community may not be consistent from year to year.

Estimating FY2018 Enterprise Revenues

The Bureau will not allow FY2018 estimated revenue for user charges based upon the government's intent alone to raise these charges in the future. These charges must be increased before the Tax Rate Recap is submitted for tax rate certification to the Bureau. When revenues are estimated based upon consumption alone, the Bureau will continue to require reasonable supporting documentation for this claim. Be reminded that a structural deficit in enterprise fund retained earnings, not due to timing, must be provided for in the next tax rate.

Appropriating Enterprise Retained Earnings

Appropriation from retained earnings may only be made after the earnings are certified by the Bureau and in no greater amount than so certified.

Expenditure Budgeting for FY2018

- Pension Appropriations: Pension assessment must be provided for in the FY2018 tax rate. If the amount appropriated is less than the assessment, the amount needed to fully fund the assessment must be raised on the Tax Rate Recap, (page 2, part IIB, line 10) per [MGL c.32, §22](#).
- Self-Insurance Plans for Employee Health Insurance: If the June 30, 2017 claims trust fund balance is in deficit, the deficit must be provided for (1) in a city or town by appropriation or by raising it on the Tax Rate Recap as an Other Amount to be Raised or (2) in a regional school district by providing for it in the FY2018 regional school district budget. The Bureau will notify DESE of any deficit in the regional school district. Any deficit will result in a reduction to a city or town's certified free cash or to a regional school district's certified excess and deficiency amount.

Communities with a self-insurance fund must record on the balance sheet for the fund both the warrants payable and IBNR amounts as of 6/30/17. Any undesignated fund balance deficit which may result, after being offset by the working deposit, must be raised on the current year's tax rate recap. Should the balance sheet for free cash certification not be submitted to the Division of Local Services prior to the setting of the tax rate, this deficit must be disclosed on the Accountant's Letter in Lieu of Balance Sheet.

Certification of Notes and Receipt of Audit Reports

For FY2018, the Bureau will not certify revenue notes of a city, town, district or regional school district if a required audit for the period ended June 30, 2016 has not been submitted to the Bureau.

Additional matters of concern:

Host Agreement Funds Received from Medical Marijuana Dispensaries

Funds received by communities per agreements with medical marijuana dispensaries are classified as General Fund under [MGL c. 44, § 53](#). These funds cannot be separately appropriated as available funds.

Internal Borrowing

The Bureau reminds Treasurers and other local officials that provisions of internal borrowing ([MGL c. 44, § 20A](#)) require that advances must be repaid during the same fiscal year. Communities using internal borrowing especially for capital projects must be aware that funds not externally borrowed by June 30th may result in a significant reduction to free cash.

Expenditure of Federal Funds Threshold

The FY2018 threshold under the Federal Single Audit Act of 1984 as amended requires that there be a financial audit or, a specific program audit, if granted by the appropriate federal oversight or cognizant agency, if \$750,000 or more in federal funds are expended during any one fiscal year.

Energy PILOTs

Communities receiving “payment in lieu of taxes” (PILOTs) under the provisions of [MGL c. 59, § 38H\(b\)](#) must follow the requirements discussed in [IGR 98-403](#) for tax agreements regarding power plants of generation and wholesale generation companies, which include solar generation facilities that provide electricity to the grid. Note Section I- C which states that:

Agreements should fix values or formulas for determining values (rather than fixing tax payments). These values should be representative of the future full and fair cash values of the plant for the term of the agreement and payments resulting from them will be treated as property taxes for Proposition 2½ and tax classification purposes. The payments are subject to the municipality’s levy limit, and the values will be used to calculate its levy ceiling and minimum residential factor.

Communities are not allowed to place a negotiated dollar amount as part of PILOT estimated receipts on page 3 of the Tax Rate Recap form. The negotiated payments must be translated into assessed value and applied as indicated in IGR 98-403.

For more detailed information on the matter, please contact your Field Advisor at the Bureau of Local Assessment.

Energy Generating Facilities Enterprise Fund

Cities and towns that own and operate energy generating facilities subject to the accounting, finance and reporting provisions of G. L. Chapter 44 rather than Chapter 164 may establish an enterprise fund under [MGL c. 44, § 53F½](#) using the same method as for any other utility. Any funds received as energy credits by the city or town which would otherwise close to the General Fund under MGL c. 44, § 53 would now close to the enterprise fund.

Balance Sheets as of 6/30/2017 and Revenue Recognition

The Bureau historically has allowed revenue recognition of State aid payments as well as other reimbursements on the balance sheet as of June 30. For free cash certification purposes, receipts from July 1 thru September 30 can be applied to offset expenditures that resulted in a deficit fund balance as of June 30. The Bureau will only allow revenue recognition for expected reimbursements not received by September 30 from MassDOT for Chapter 90 expenditures provided:

- the community can document that the request for reimbursement has been filed with MassDOT by September 30, 2017; and
- the Bureau must be satisfied that payment will be made.

Free Cash Update and Non-Recurrent Distributions to Cities and Towns

Cities and towns may request from the Director of Accounts an update of free cash to reserve and appropriate non-recurrent distributions over a certain period of time.

[MGL c. 59, § 23](#) permits inclusion of receipts attributable to prior years, principally collection of property taxes, up to March 31. This update to the amount previously certified provides additional spending authority based on those items, but must first be certified by the Director prior to appropriation. The Director will not certify an additional amount if use of those funds could, in the Director's opinion, result in a negative free cash as of the following June 30. Only one request may be made per fiscal year. If an amount is certified by the Director and a negative free cash results the following June 30, no similar update may be requested for the following fiscal year.

MGL Chapter 44, § 31 Emergencies

Emergency payments under [MGL c. 44, § 31](#) made in FY2017 after the setting of the tax rate through June 30, 2017 must be reported to the Assessors for inclusion in the FY2018 tax rate unless otherwise provided for. Emergency payments made in FY2018 prior to the setting of the tax rate may be included in the FY2018 tax rate, but must be included in the FY2019 tax rate unless otherwise provided for.

School Finance

State Special Education Reimbursement Fund ("Circuit Breaker")

Per DESE regulations, the balance in this fund at the close of FY2017 can be no greater than DESE's FY2017 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2018's school budget. See [603 CMR 10.07](#) for additional details.

Regional Transportation Reimbursement Fund

Per DESE regulations, the balance in this fund at the close of FY2017 can be no greater than DESE's FY2017 reimbursement. Any excess fund balance must close to the General Fund. Any deficit fund balance must be charged to FY2018's school budget. See Chapter 233 of the Acts of 2014 and DESE Advisory for additional details.

Federal and State School Grant Deficits

The Bureau has noted that a number of balance sheet reports reflect deficits in certain federal and state school grants. The Bureau may reduce free cash or excess and deficiency for any federal or state school grants which have been reported in deficit on the balance sheet since FY2015.

Regional Schools Only

Annual Audit

Per [MGL c. 71, § 16A](#), the Regional School Committee has the duty to ensure that the district has an annual financial audit and their auditors forwards a copy of the audit to the Director of Accounts.

Balance Sheet

Regional school districts must submit a balance sheet as of June 30 to the Bureau of Accounts for certification of excess and deficiency on or before October 31 of each year. DESE regulations indicate that if a balance sheet is not filed timely, the Commissioner of DESE may request the Commissioner of Revenue to withhold all or some part of the District's State Aid distribution until the balance sheet is submitted. The Bureau provides annually instructions on the submission requirements. Audited balance sheets are not required, but the submission must be in a format that will allow the Bureau to calculate an excess and deficiency amount.

Appropriation of Excess and Deficiency

The Bureau and the DESE agree that excess and deficiency must be certified by the Bureau of Accounts from a regional school district's balance sheet and can only then be used as a funding source in the FY2018 budget.